

**PMG Direct Childcare Fund**

**Financial Statements**

**For the year ended 31 March 2023**

**PMG Direct Childcare Fund**  
Financial Statements  
For the year ended 31 March 2023

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**PMG Direct Childcare Fund**  
**Directory**  
**As at 31 March 2023**

Manager	PMG Property Funds Management Limited Level 1, 143 Durham Street Tauranga
Directors of the Manager	Nigel Lowe Scott C McKenzie Denis J McMahon (ceased 31 December 2022) Wayne Beilby James Beale (appointed 19 August 2022) Glenn Butterworth (ceased 19 August 2022) Jonathon Cameron (ceased 1 June 2022) Tony Pitt (ceased 19 August 2022) James Storey (ceased 19 August 2022)
Custodian	PMG Direct Childcare Fund Trustees Limited
Trustee	Covenant Trustee Services Limited Level 6, 191 Queen Street Auckland 1010
Auditors	KPMG Level 2, 247 Cameron Road Tauranga
Solicitors	Cooney Lees Morgan Level 3, 247 Cameron Road Tauranga  Dentons Kensington Swan Level 4, 40 Bowen Street Wellington 6011
Bankers	ASB Business Banking 518 Cameron Road Tauranga Branch
IRD Number	123-523-075

**PMG Direct Childcare Fund**  
**Statement of Comprehensive Income**  
**For the year ended 31 March 2023**

	Note	2023 Actual \$	2022 Actual \$	2023 Product Disclosure Statement \$
<b>Revenue</b>				
Revenue - rental income from property leases	4	3,077,641	2,843,492	3,229,000
Property operating expenses recovered		420,706	351,282	412,000
Insurance Proceeds		36,662	-	-
<b>Total Revenue</b>		<u>3,535,009</u>	<u>3,194,774</u>	<u>3,641,000</u>
<b>Less expenses</b>				
Accountancy		(4,545)	(9,163)	(5,000)
Audit of financial statements - KPMG	10	(29,050)	(23,100)	(24,000)
Administration fees		(115,608)	(160,709)	(165,000)
Property operating expenses		(540,787)	(312,569)	(469,000)
Property and Fund Management fees	13	(232,596)	(212,947)	(239,000)
Performance fee	13	-	(321,607)	-
<b>Total expenses</b>		<u>(922,586)</u>	<u>(1,040,095)</u>	<u>(902,000)</u>
<b>Operating profit/(loss) before net finance costs and investment property fair value movements</b>		2,612,423	2,154,679	2,739,000
Interest Received	5	32,297	-	-
Finance Expenses	5	(655,646)	(498,001)	(626,000)
Increase/(decrease) in fair value of derivatives	5	(47,635)	381,703	39,000
<b>Net finance costs</b>		<u>(670,984)</u>	<u>(116,298)</u>	<u>(587,000)</u>
Increase/(decrease) in fair value of investment property	11(b)	(4,999,384)	1,881,780	(1,683,000)
Realised gain/(loss) on disposal of investment property	11(b)	(170,098)	-	(168,000)
<b>Net profit/(loss) for the year</b>		<u>(3,228,043)</u>	<u>3,920,161</u>	<u>301,000</u>
Other comprehensive income		-	-	-
<b>Total comprehensive income/(loss) for the year</b>		<u><u>(3,228,043)</u></u>	<u><u>3,920,161</u></u>	<u><u>301,000</u></u>



# PMG Direct Childcare Fund

## Statement of Changes in Equity For the year ended 31 March 2023

	Note	Share Capital \$	Retained Earnings \$	Total Equity \$
<b>2023</b>				
Opening Balance at 1 April 2022		27,276,882	4,578,822	31,855,704
Net profit/(loss) for the year and total comprehensive income			(3,228,043)	(3,228,043)
<i>Transactions with investors in their capacity as investors:</i>				
Units issued during the year	10	15,444,000		15,444,000
Issue costs	10	(714,064)		(714,064)
Distributions paid to investors			(1,966,003)	(1,966,003)
<b>Balance at 31 March 2023</b>		42,006,818	(615,224)	41,391,594

	Note	Share Capital \$	Retained Earnings \$	Total Equity \$
<b>2022</b>				
Opening Balance at 1 April 2021		27,276,882	2,458,245	29,735,127
Net profit for the year and total comprehensive income			3,920,161	3,920,161
<i>Transactions with investors in their capacity as investors:</i>				
Distributions paid to investors			(1,799,584)	(1,799,584)
<b>Balance at 31 March 2022</b>		27,276,882	4,578,822	31,855,704

### 2023 Product Disclosure Statement

	Share Capital \$	Retained Earnings \$	Total Equity \$
<b>2023</b>			
Opening Balance at 1 April 2022	27,277,000	4,579,000	31,856,000
Net profit for the year and total comprehensive income		301,000	301,000
<i>Transactions with investors in their capacity as investors:</i>			
Units issued during the year	17,496,000		17,496,000
Issue costs	(867,000)		(867,000)
Distributions paid to investors		(2,004,000)	(2,004,000)
<b>Balance at 31 March 2023</b>	43,906,000	2,876,000	46,782,000



**PMG Direct Childcare Fund**  
**Statement of Financial Position**  
**As at 31 March 2023**

		<b>2023</b>	<b>2022</b>	<b>2023</b>
	<b>Note</b>	<b>Actual</b>	<b>Actual</b>	<b>Product</b>
		<b>\$</b>	<b>\$</b>	<b>Disclosure</b>
				<b>Statement</b>
				<b>\$</b>
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	1	610,290	255,197	159,000
Trade and other receivables	2	49,147	147,840	43,000
Prepayments		63,265	39,146	19,000
Investment Property held for resale	11	-	4,940,333	-
Derivative Financial Instruments	12 (e)	415,511	463,146	502,000
<b>Total current assets</b>		<u>1,138,213</u>	<u>5,845,662</u>	<u>723,000</u>
<b>Non-current assets</b>				
Investment Property	11	50,354,988	43,246,425	53,714,000
Lease incentives not yet amortised	11	620,012	688,242	846,000
<b>Total non-current assets</b>		<u>50,975,000</u>	<u>43,934,667</u>	<u>54,560,000</u>
<b>Total assets</b>		<u>52,113,213</u>	<u>49,780,329</u>	<u>55,283,000</u>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables	3	664,619	710,625	354,000
<b>Total current liabilities</b>		<u>664,619</u>	<u>710,625</u>	<u>354,000</u>
<b>Non-current liabilities</b>				
Borrowings	7	10,057,000	17,214,000	8,147,000
<b>Total non-current liabilities</b>		<u>10,057,000</u>	<u>17,214,000</u>	<u>8,147,000</u>
<b>Total liabilities</b>		<u>10,721,619</u>	<u>17,924,625</u>	<u>8,501,000</u>
<b>Net assets</b>		<u>41,391,594</u>	<u>31,855,704</u>	<u>46,782,000</u>
<b>Equity</b>				
Issued Units	10	42,006,818	27,276,882	43,906,000
Retained earnings		(615,224)	4,578,822	2,876,000
<b>Total equity</b>		<u>41,391,594</u>	<u>31,855,704</u>	<u>46,782,000</u>

 ..... Director, PMG Property Funds Management Limited

 ..... Director, PMG Property Funds Management Limited

31 May 2023



# PMG Direct Childcare Fund

## Statement of Cash Flows

For the year ended 31 March 2023

		2023	2022	2023 Product Disclosure Statement
	Note	Actual \$	Actual \$	\$
<b>Cash flows from operating activities</b>				
<b>Cash was provided from:</b>				
Receipts from tenants		3,582,574	2,908,623	3,430,000
Net GST recovered		-	-	30,000
<b>Total cash received</b>		<u>3,582,574</u>	<u>2,908,623</u>	<u>3,460,000</u>
<b>Cash was applied to:</b>				
Payments to suppliers		(923,601)	(1,042,426)	(1,351,000)
Interest and other finance costs paid		(663,674)	(483,977)	(626,000)
<b>Total cash applied</b>		<u>(1,587,275)</u>	<u>(1,526,403)</u>	<u>(1,977,000)</u>
Net cash inflow/(outflow) from operating activities	15	<u>1,995,299</u>	<u>1,382,220</u>	<u>1,483,000</u>
<b>Cash flows from investing activities</b>				
<b>Cash was provided from:</b>				
Interest received		32,297	-	-
Disposal of investment property		5,000,000	-	4,773,000
<b>Total cash received</b>		<u>5,032,297</u>	<u>-</u>	<u>4,773,000</u>
<b>Cash was applied to:</b>				
Purchase of investment properties & capital expenditure		(12,350,936)	(44,585)	(12,131,000)
<b>Total cash applied</b>		<u>(12,350,936)</u>	<u>(44,585)</u>	<u>(12,131,000)</u>
<b>Net cash inflow/(outflow) from investing activities</b>		<u>(7,318,639)</u>	<u>(44,585)</u>	<u>(7,358,000)</u>
<b>Cash flows from financing activities</b>				
<b>Cash was provided from:</b>				
Proceeds from issue of units		15,444,000	-	17,496,000
Proceeds from borrowings		-	530,000	-
<b>Total cash received</b>		<u>15,444,000</u>	<u>530,000</u>	<u>17,496,000</u>
<b>Cash was applied to:</b>				
Repayment of borrowings		(7,157,000)	-	(9,067,000)
Unit issue costs		(714,064)	-	(867,000)
Distributions paid to Investors		(1,894,503)	(1,780,334)	(1,783,000)
<b>Total cash applied</b>		<u>(9,765,567)</u>	<u>(1,780,334)</u>	<u>(11,717,000)</u>
<b>Net cash inflow/(outflow) from financing activities</b>		<u>5,678,433</u>	<u>(1,250,334)</u>	<u>5,779,000</u>
Net increase in cash and cash equivalents		355,093	87,301	(96,000)
Cash and cash equivalents at beginning of period		<u>255,197</u>	<u>167,896</u>	<u>255,000</u>
<b>Cash and cash equivalents at end of period</b>	1	<u>610,290</u>	<u>255,197</u>	<u>159,000</u>



# **PMG Direct Childcare Fund**

## **Notes to the Financial Statements**

### **For the year ended 31 March 2023**

#### **Reporting Entity**

PMG Direct Childcare Fund ('the Fund') is a Managed Investment Scheme domiciled in New Zealand. The Fund is managed by PMG Property Funds Management Limited ('the Manager'). The Early Childhood Education (ECE) centres in the Fund will be held on trust for the fund by PMG Direct Childcare Fund Trustees Limited ('the Custodian'), a wholly-owned subsidiary of Covenant Trustee Services Limited ('the Trustee'). The Custodian and the Trustee are independent from the Manager.

The nature of the Fund's business is a managed investment scheme open to investors. It is focused on generating value for investors through the procurement, construction and growth of a portfolio of ECE centres with a long-term investment horizon. PMG Direct Childcare Fund will be underpinned by experienced childcare operators on long-term lease contracts.

#### **Basis of Preparation**

##### **A. Statement of Compliance**

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ('NZ GAAP'). They comply with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable financial reporting standards, as appropriate for tier 1 for-profit oriented entities. The financial statements also comply with the requirements of International Financial Reporting Standards ('IFRS'). The Fund is required to report under Tier 1 as the Fund is a FMC reporting entity for the purpose of the Financial Markets Conduct Act 2013. The Fund's financial statements comply with this Act and the Financial Reporting Act 2013.

The financial statements were authorised for issue by the Directors of the Manager on 31 May 2023.

As required by FRS-42 – Prospective Financial Statements, the prospective financial information provided in the Product Disclosure Statement of the Fund, issued 26 October 2022, has been provided for comparative purposes in these financial statements. Any major variances in actual financial information compared to the prospective financial information are provided in note 14.

##### **B. Basis of Measurement**

The financial statements have been prepared on going concern assumption and the historical cost basis except for investment properties and derivative financial assets which have been measured at fair value.

##### **C. Functional and Presentation currency**

The financial statements are presented in New Zealand dollars, which is the Fund's functional currency, and are rounded to the nearest whole dollar.



**PMG Direct Childcare Fund**  
**Notes to the Financial Statements**  
**For the year ended 31 March 2023**

**D. Use of estimates and judgements**

The preparation of financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 11 - Investment Property.

**E. New, revised or amended Accounting Standards and Interpretations adopted**

There were no new, revised or amended Accounting Standards and Interpretations issued by the External Reporting Board ('XRB') that were mandatory for the current reporting period. As a result there were no changes in these financial statements as a result of adopting the new Accounting Standards.

Any new, revised or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Other issued standards and amendments that are not yet effective are not expected to have an impact on the financial statements.

**1. Cash and cash equivalents**

	<b>2023</b>	<b>2022</b>
	\$	\$
ASB Bank Cheque Accounts	431,090	255,197
Solicitor Trust Account	179,200	0
	<u>610,290</u>	<u>255,197</u>
<b>Total</b>	<b>610,290</b>	<b>255,197</b>

Cash and cash equivalents includes cash on hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Cash and cash equivalents are classified as loans and receivables.



**PMG Direct Childcare Fund**  
**Notes to the Financial Statements**  
**For the year ended 31 March 2023**

**2. Trade and Other Receivables**

	<b>2023</b>	<b>2022</b>
	\$	\$
Trade Receivable	49,147	147,840
	-----	-----
Total Trade and Other Receivables	49,147	147,840

Trade receivables, which include lease receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any loss allowance. Trade Receivables are generally due for settlement within 30 days.

The Fund has elected to apply the simplified approach thereby recognising lifetime expected credit losses on trade and lease receivables. A provision matrix is used to determine the lifetime expected credit loss. The default rate is based upon historical observed default rates over the expected life and is adjusted for forward looking estimates. The default rate is reviewed annually.

**3. Trade and other payables**

	<b>2023</b>	<b>2022</b>
	\$	\$
Trade Payables	97,233	76,973
Accrued Expenses	306,229	376,678
Distributions Payable	211,500	140,000
Income in advance	21,759	75,852
GST Payable	27,898	41,122
	-----	-----
Total Trade and Other Payables	664,619	710,625

These amounts represent unsecured liabilities for goods and services provided to the Fund prior to the end of the financial period which are usually paid within 30 days of recognition. The carrying amounts of Trade and other payables are assumed to be the same as their fair values, due to their short term nature. Trade and other payables are classified as financial liabilities measured at amortised cost.

**4. Revenue**

Revenue is recognised when a performance obligation is satisfied. Revenue is measured at the fair value of the consideration received or receivable.

Rental income from the investment properties held by the Fund is recognised in income on a straight-line basis over the lease term. Lease incentives provided in relation to letting the investment property are amortised on a straight-line basis over the non-cancellable portion of the lease to which they relate, as a reduction of rental income. The net amount of the lease incentives not fully amortised are included in the statement of financial position under 'Lease Incentives not yet amortised'.

The rent revenue from the tenants constitute being part of a lease and are dealt with under the scope of NZ IFRS 16 – *Leases* and so are outside the scope of IFRS 15 – *Revenue from Contracts with Customers*.

The Insurance Proceeds relates to an Insurance Claim for the Shakespeare Ave property. The claim was due to a motor vehicle impact with the preschool.



# PMG Direct Childcare Fund

## Notes to the Financial Statements

### For the year ended 31 March 2023

#### 4. Revenue (continued)

Operating Expenses recoveries – The tenants also pay the Fund their share of Property Operating Costs. These are recoveries of expenses incurred by the Fund in relation to the property. The tenants are charged a monthly amount towards these operating costs based on an annual budget for the property and have an annual wash up reconciliation to settle any under or overcharges of actual costs incurred versus costs recharged. Property Operating Cost recoveries are recognised when invoiced on a monthly basis which is in line with when the Fund meets the performance obligations of the services provided. The operating expenditure recovered are based on the terms of the tenants' leases and the costs of the outgoings. There are no discounts provided or finance component in any of those costs so the transaction price is straight forward and easily allocated on a straight-line basis.

The operating expenses recovered have been identified as being under the scope of NZIFRS 15 – *Revenue from Contracts with Customers*. This is because they are an additional service over and above the lease of rental space and so should be looked at as separate to the lease income. They are recognised over time as the services are provided.

#### 5. Net Finance costs

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Finance expenses comprise interest expense on borrowings and bank fees incurred.

Derivatives - An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Fund manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in the profit or loss when incurred. Subsequent to initial recognition, financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss

#### 6. Income tax expense

The Fund elected to be a Portfolio Investment Entity ('PIE') under the Income Tax Act 2007. As a result, the Fund itself is not liable for income tax.

The Fund's taxable income is instead apportioned amongst its Investor's based on the number of units they hold and their Prescribed Investor Rates ("PIR"). The Fund calculates and deducts tax based on each investor's PIR and pays the tax to the Inland Revenue Department on behalf of the investor. The PIE tax liabilities, at the end of the year, are included within distributions payable in the Statement of Financial Position.

PIE tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the Inland Revenue Department on behalf of the investors based on the investors' current period's taxable income and their PIR.



**PMG Direct Childcare Fund**  
**Notes to the Financial Statements**  
**For the year ended 31 March 2023**

**7. Loans and Borrowings**

	<b>2023</b>	<b>2022</b>
	\$	\$
ASB Bank Loan	8,327,000	11,250,000
ASB Bank Loan	1,730,000	5,964,000
	-----	-----
<b>Total Loans and Borrowings</b>	<b>10,057,000</b>	<b>17,214,000</b>
	=====	=====
<b>This is represented by:</b>		
Current	-	-
Non-current	10,057,000	17,214,000
	-----	-----
	<b>10,057,000</b>	<b>17,214,000</b>

The ASB Bank Loan has a general security deed over PMG Direct Childcare Fund Trustees Limited and a registered mortgage over the land and buildings of 145 Hibiscus Coast Highway, Auckland, 173 Bill Richardson Drive, Invercargill, 26 Dynes Road, Rolleston, 17 Catherine McLean Road, Auckland, 25 Spitfire Drive, Blenheim, 130 Pinecrest Drive, Gulf Harbour, Auckland, 58 Ormiston Road, Flat Bush, Auckland, 6-8 Merfield Road, Glen Innes, Auckland, 30 Ward Street, Upper Hutt and 30 Tuhikaramea Road, Dinsdale, Hamilton.

The ASB Loans are on an interest only basis. The current interest rate at 31 March 2023 was 7.61% on the \$8,327,000 loan and 7.49% on the \$1,730,000. Both of the term loans have a maturity date of 28 May 2025.

**8. Goods and Services Tax (GST)**

All amounts are shown exclusive of Goods and Service Tax (GST), except for receivables and payables that are stated inclusive of GST.

Cash flows are presented on a net basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

**9 Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

The Fund is the Lessor of investment property. The Fund only enters into leases in which it retains substantially all the risks and benefits of ownership of the leased asset. These leases are classified as operating leases. Assets leased to third parties under operating leases are included in investment property in the Statement of Financial Position.



**PMG Direct Childcare Fund**  
**Notes to the Financial Statements**  
**For the year ended 31 March 2023**

**9 Leases (continued)**

The Fund's investment property has the following minimum lease payments receivable under non-cancellable operating leases:

	<b>2023</b>	<b>2022</b>
	\$	\$
Not later than one year	2,781,776	2,944,656
Later than one year and not later than two years	2,711,050	2,913,653
Later than two years and not later than three years	2,691,536	2,888,712
Later than three years and not later than four years	2,669,149	2,865,034
Later than four years and not later than five years	2,652,767	2,843,083
Later than five years	17,512,289	22,769,924
	-----	-----
<b>Total lease receivable</b>	<b>31,018,567</b>	<b>37,225,062</b>

The leases are subject to rent reviews and have renewal dates, whereby lessees have the right to renew for an agreed term.

The lease agreements held over the Investment Properties are summarised as follows:

<b>Tenant</b>	<b>Term</b>	<b>Start Date</b>	<b>Renewal or Expiry Date</b>	<b>Annual Rental</b>
PEG1 Limited	14 years	1 November 2020	30 September 2034	\$385,632
Grow ECE Limited	18 years	10 March 2021	9 March 2039	\$255,182
Education Hub Ltd	15 years	8 December 2018	7 December 2033	\$375,831
GMG Trust	15 years	27 October 2020	26 October 2035	\$397,488
Nurture Early Learning	15 years	1 March 2019	28 February 2034	\$346,500
Omaka ELC Ltd	15 years	29 April 2019	28 April 2034	\$238,285
Conscious Education	15 years	1 February 2023	31 January 2038	\$269,100
Little Learners Dinsdale	10 years	1 March 2022	29 February 2032	\$254,315
TL DL Holdings	10 years	1 November 2021	31 October 2031	\$165,000

**10. Issued Units**

Issued units are classified as equity. Incremental costs directly attributable to the issue of new units are shown in equity as a deduction, net of tax, from the proceeds from the issue of those units.

<b>Issued Units</b>	<b>2023</b>	<b>2022</b>
Issued units Authorised and issued at 31 March	42,300,000	28,000,000

PMG Direct Childcare Capital Fund equity includes issued units and retained earnings. All issued units are fully paid. The units issued on 30 November 2022 had a par value of \$1.08.

<b>Movements in Issued Units</b>	<b>2023</b>	<b>2022</b>
Opening balance	28,000,000	28,000,000
Unit Issue	14,300,000	0
	-----	-----
Closing Balance	42,300,000	28,000,000

Each unit confers an equal interest in the Fund and ranks equally in all respects with any other units issued in the Fund. Each unit confers an equal right to distributions authorised by the Manager, and to cast votes at meetings of Unitholders, in accordance with the Trust Deed.

Included in equity issue costs are other services KPMG performed during the year which include a limited assurance engagement for prospective financial information (PFI) (\$10,500) and tax consulting related to the PFI (\$2,000).

**PMG Direct Childcare Fund**  
Notes to the Financial Statements  
For the year ended 31 March 2023

**11. Investment property**

**a) Accounting policy**

Investment properties are initially recorded at cost and will then be revalued annually and stated in the accounts at their fair value based on the latest valuation in compliance with NZ IFRS 13 - *Fair Value Measurement*. Fair Value is based on independent valuation.

Any gain or loss determined by these revaluations is included in the Statement of Comprehensive Income. When an item of investment property is disposed of, any gain or loss is recognised in the Statement of Comprehensive Income and is calculated as the difference between the Fair Value and the carrying value of the item. Depreciation is not charged on investment properties.

If an entity determines that the fair value of an investment property under construction is not reliably measurable but expects the fair value of the property to be reliably measurable when construction is complete, it shall measure that investment property under construction at cost until either its fair value becomes reliably measurable or construction is completed (whichever is earlier).

**b) Investment Property held by the Fund at 31 March 2023 is:**

	146 Hibiscus Coast Highway Orewa	26 Dynes Road Rolleston	173 Bill Richardson Invercargill	25 Spitfire Drive Blenheim	14-18 Shakespeare Ave, Hamilton	68 Ormlston Road Flatbush, Auckland	
Valuation at 31 March 2022	\$ 6,350,000	\$ 6,425,000	\$ 3,475,000	\$ 3,875,000	\$ 6,000,000	\$ 8,250,000	
Additions and Costs of Sale	\$ 6,910	\$ -	\$ -	\$ -	\$ 170,000	\$ 96,777	
Disposals	\$ -	\$ -	\$ -	\$ -	\$ (5,000,000)	\$ -	
Movement in Lease Inducements	\$ (5,102)	\$ (8,301)	\$ (34,132)	\$ 5,441	\$ (59,667)	\$ 16,000	
Fair Value Movement	\$ (501,728)	\$ (666,699)	\$ (590,868)	\$ (280,441)	\$ (110,431)	\$ (1,138,677)	
Valuation at 31 March 2023	\$ 4,850,000	\$ 5,750,000	\$ 2,850,000	\$ 3,600,000	\$ -	\$ 7,225,000	
Less Lease Inducements	\$ (108,780)	\$ (113,298)	\$ -	\$ (86,411)	\$ -	\$ (68,734)	
Fair Value at 31 March 2023	\$ 4,741,220	\$ 5,636,702	\$ 2,850,000	\$ 3,513,589	\$ -	\$ 7,156,266	
	17 Catherine McLe Road, Pukekohe	130 Pinecrest Drive Gulf Harbour	6-8 Merfield Road Glen Innes	30 Ward Street Upper Hutt	30 Tuhikaramea Road Dinsdale		Total
Valuation at 31 March 2022	\$ 4,275,000	\$ 6,600,000	\$ 6,625,000	\$ -	\$ -	\$ -	\$ 48,875,000
Capitalisation of Expenses	\$ -	\$ -	\$ -	\$ 140,257	\$ 137,440	\$ -	\$ 277,697
Additions	\$ -	\$ -	\$ -	\$ 5,018,000	\$ 6,700,000	\$ -	\$ 11,991,785
Disposals	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (5,000,000)
Movement in Lease Inducements	\$ 298	\$ (82,917)	\$ 46,572	\$ 21,678	\$ 31,080	\$ -	\$ (68,230)
Fair Value Movement	\$ (75,208)	\$ (692,083)	\$ (496,572)	\$ (179,935)	\$ (368,520)	\$ -	\$ (5,101,252)
Valuation at 31 March 2023	\$ 4,200,000	\$ 4,825,000	\$ 6,175,000	\$ 5,000,000	\$ 6,500,000	\$ -	\$ 50,875,000
Less Lease Inducements	\$ (58,403)	\$ -	\$ (131,620)	\$ (21,678)	\$ (31,080)	\$ -	\$ (620,012)
Fair Value at 31 March 2023	\$ 4,141,597	\$ 4,825,000	\$ 6,043,372	\$ 4,978,322	\$ 6,468,920	\$ -	\$ 50,364,988

Valuation amounts are adjusted for lease inducements in order to ensure these are not double counted.

**Investment Property held for resale**

14-18 Shakespeare Ave, Hamilton was held for resale in the 2022 year as it had an unconditional contract for sale on it for \$5,000,000. Settlement date was 24 May 2022. The property is included in the total investment property shown above.

	2023	2022
Investment Property held for resale	-	4,940,333
Investment Properties	50,354,988	43,246,425
	-----	-----
	50,354,988	48,186,758



**PMG Direct Childcare Fund**  
Notes to the Financial Statements  
For the year ended 31 March 2023

**11. Investment property (continued)**

Investment Property held by the Fund at 31 March 2022 was:

	148 Hibiscus Coast Highway Orewa	26 Dynes Road Rolleston	173 Bill Richardson Invercargill	25 Spitfire Drive Blenheim	14-18 Shakespeare Ave, Hamilton
Valuation at 31 March 2021	\$ 5,350,000	\$ 6,446,000	\$ 3,120,000	\$ 3,760,000	\$ 4,900,000
Additions	\$ -	\$ -	\$ -	\$ -	\$ 22,709
Movement in Lease Inducements	(5,181)	(4,841)	3,784	7,563	5,453
Fair Value Movement	\$ 5,181	\$ 983,841	351,216	\$ 117,437	\$ 71,838
Valuation at 31 March 2022	\$ 6,360,000	\$ 6,426,000	\$ 3,475,000	\$ 3,876,000	\$ 5,000,000
Less Lease Inducements	(113,962)	(121,599)	(34,132)	(80,970)	(59,667)
Fair Value at 31 March 2022	\$ 6,236,038	\$ 6,303,401	\$ 3,440,868	\$ 3,794,030	\$ 4,940,333
	58 Ormiston Road Flatbush, Auckland	17 Catherine McLean Road, Pukekohe	130 Pinecrest Drive Gulf Harbour	6-8 Merfield Road Glen Innes	Total
Valuation at 31 March 2021	\$ 8,100,000	\$ 3,900,000	\$ 6,600,000	\$ 6,600,000	\$ 46,766,000
Additions	\$ -	\$ -	\$ -	(3,716)	\$ 18,993
Movement in Lease Inducements	\$ 34,496	39,253	70,046	57,854	\$ 208,227
Fair Value Movement	\$ 115,504	\$ 335,747	(70,046)	(28,938)	\$ 1,881,780
Valuation at 31 March 2022	\$ 8,250,000	\$ 4,275,000	\$ 6,600,000	\$ 6,626,000	\$ 48,876,000
Less Lease Inducements	(51,834)	(58,105)	(82,917)	(85,056)	(688,242)
Fair Value at 31 March 2022	\$ 8,198,166	\$ 4,216,895	\$ 6,517,083	\$ 6,539,944	\$ 48,186,768

**c) Fair value measurement**

*Fair value hierarchy*

The following details the Fund's assets, measured or disclosed at fair value, using a three-level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Investment properties are the only assets carried at fair value, and they are included within level 3 of the fair value hierarchy. They have a carrying value of \$50,354,988 at 31 March 2023 (2022: \$48,186,758).

*Valuation techniques for fair value measurements categorised within level 3*

Investment properties have been valued based on similar assets, location and market conditions. The valuation techniques in note 11 rely on significant inputs such as market rental yield, rental growth rates, vacancy rates, market capitalisation rates and discount rates.

Generally, a change in the market capitalisation rate is accompanied by a directionally similar change in the discount rate. The adopted market capitalisation rate forms part of the direct capitalisation approach and the discount rate forms part of the discounted cash flow approach. Both valuation methodologies are considered when determining fair value of investment property.



**PMG Direct Childcare Fund**  
**Notes to the Financial Statements**  
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**11. Investment property (continued)**

**c) Fair value measurement continued**

When performing the direct capitalisation approach, the market rental has a strong interrelationship with the market capitalisation rate given the methodology involves assessing the total market rental income receivable from the property and capitalising this in perpetuity to derive a capital value. In theory, an increase in the market rent and an increase in the market capitalisation rate could potentially offset the impact to fair value. The same can be said for a decrease in the market rent and a decrease in the adopted market capitalisation rate. A directionally opposite change in the market rent and the adopted market capitalisation rate could potentially magnify the impact on fair value.

When performing a discounted cash flow valuation, the discount rate and terminal yield (a factor of market yield and growth rate) have a strong interrelationship in deriving fair value given the discount rate will determine the rate at which the terminal value is discounted to present value. In theory, an increase in the adopted discount rate and a decrease in the terminal yield could potentially offset the impact to fair value. The same can be said for a decrease in the discount rate and an increase in the terminal yield. A directionally similar change in the discount rate and the terminal yield could potentially magnify the impact on fair value.

The Valuation details for each Investment Property and key level 3 unobservable inputs and the valuation sensitivity for each are set out below:

**d) 145 Hibiscus Coast Highway, Orewa** Valuation was prepared by CBRE Valuation & Advisory Services. They used the Capitalisation Approach and the Discounted Cash Flow Approach. These two approaches gave them a range of \$4,850,000 to \$4,900,000.

The key level 3 unobservable inputs and the valuation sensitivity is as follows:

<b>Unobservable inputs</b>	<b>2023</b>	<b>2022</b>
Capitalisation Rate	5.75%	5.25%
Terminal Yield	6.00%	5.25%
Discount rate	7.75%	7.25%
Growth Forecast (CPI)	2.00%	2.20%

**e) 26 Dynes Road, Rolleston** Valuation was prepared by CBRE Valuation & Advisory Services. They used the Capitalisation Approach and the Discounted Cash Flow Approach. These two approaches gave them a range of \$5,625,000 to \$5,875,000.

The key level 3 unobservable inputs and the valuation sensitivity is as follows:

<b>Unobservable inputs</b>	<b>2023</b>	<b>2022</b>
Capitalisation Rate	6.25%	5.50%
Terminal Yield	6.50%	5.75%
Discount rate	8.00%	7.50%
Growth Forecast (CPI)	2.00%	2.20%



**PMG Direct Childcare Fund**  
**Notes to the Financial Statements**  
**For the year ended 31 March 2023**

**11. Investment property (continued)**

**f) 25 Spitfire Drive, Blenheim** Valuation was prepared by CBRE Valuation & Advisory Services. They used the Capitalisation Approach and the Discounted Cash Flow Approach. These two approaches gave them a range of \$3,550,000 to \$3,650,000.

The key level 3 unobservable inputs and the valuation sensitivity is as follows:

<b>Unobservable inputs</b>	<b>2023</b>	<b>2022</b>
Capitalisation Rate	6.25%	5.75%
Terminal Yield	6.50%	6.00%
Discount rate	8.25%	7.50%
Growth Forecast (CPI)	2.00%	2.20%

**g) 173 Bill Richardson Drive, Invercargill** Valuation was prepared by CBRE Valuation & Advisory Services. They used the Capitalisation Approach and the Discounted Cash Flow Approach. These two approaches gave them a range of \$2,850,000 to \$2,875,000.

The key level 3 unobservable inputs and the valuation sensitivity is as follows:

<b>Unobservable inputs</b>	<b>2023</b>	<b>2022</b>
Capitalisation Rate	7.00%	6.25%
Terminal Yield	7.25%	6.50%
Discount rate	9.00%	8.25%
Growth Forecast (CPI)	2.00%	2.20%

**h) 130 Pinecrest Drive, Gulf Harbour, Auckland** Valuation was prepared by CBRE Valuation & Advisory Services. They used the Capitalisation Approach and the Discounted Cash Flow Approach. These two approaches gave them a range of \$4,800,000 to \$4,850,000.

The key level 3 unobservable inputs and the valuation sensitivity is as follows:

<b>Unobservable inputs</b>	<b>2023</b>	<b>2022</b>
Capitalisation Rate	6.50%	5.25%
Terminal Yield	6.75%	5.50%
Discount rate	8.25%	7.00%
Growth Forecast (CPI)	2.00%	2.20%

**i) 17 Catherine McLean Road, Pukekohe** Valuation was prepared by CBRE Valuation & Advisory Services. They used the Capitalisation Approach and the Discounted Cash Flow Approach. These two approaches gave them a range of \$4,175,000 to \$4,250,000.

The key level 3 unobservable inputs and the valuation sensitivity is as follows:

<b>Unobservable inputs</b>	<b>2023</b>	<b>2022</b>
Capitalisation Rate	6.00%	5.375%
Terminal Yield	6.25%	5.625%
Discount rate	7.75%	7.00%
Growth Forecast (CPI)	2.00%	2.20%



**PMG Direct Childcare Fund**  
**Notes to the Financial Statements**  
**For the year ended 31 March 2023**

**11. Investment property (continued)**

**j) 6-8 Merfield Road, Glen Innes, Auckland** Valuation was prepared by CBRE Valuation & Advisory. They used the Capitalisation Approach and the Discounted Cash Flow Approach. These two approaches gave them a range of \$6,175,000 to \$6,175,000.

The key level 3 unobservable inputs and the valuation sensitivity is as follows:

<b>Unobservable inputs</b>	<b>2023</b>	<b>2022</b>
Capitalisation Rate	6.00%	5.25%
Terminal Yield	6.25%	5.50%
Discount rate	7.75%	7.25%
Growth Forecast (CPI)	2.00%	2.20%

**k) 58 Ormiston Road, Flat Bush, Auckland** Valuation was prepared by CBRE Valuation & Advisory Services. They used the Capitalisation Approach and the Discounted Cash Flow Approach. These two approaches gave them a range of \$7,200,000 to \$7,250,000.

The key level 3 unobservable inputs and the valuation sensitivity is as follows:

<b>Unobservable inputs</b>	<b>2023</b>	<b>2022</b>
Capitalisation Rate	6.50%	6.00%
Terminal Yield	7.00%	6.50%
Discount rate	8.25%	7.75%
Growth Forecast (CPI)	2.00%	2.20%

**l) Ward Street, Upper Hutt** Valuation was prepared by Jones Lang LaSalle Valuation Advisory Services. They used the Capitalisation Approach and the Discounted Cash Flow Approach. These two approaches gave them a range of \$4,610,000 to \$5,150,000.

The key level 3 unobservable inputs and the valuation sensitivity is as follows:

<b>Unobservable inputs</b>	<b>2023</b>	<b>2022</b>
Capitalisation Rate	5.75%	-
Terminal Yield	6.00%	-
Discount rate	6.50%	-
Growth Forecast (CPI)	2.62%	-

**m) 30 Tuhikaramea Road, Dinsdale, Hamilton** Valuation was prepared by Jones Lang LaSalle Valuation Advisory Services. They used the Capitalisation Approach and the Discounted Cash Flow Approach. These two approaches gave them a range of \$6,500,000 to \$6,500,000.

The key level 3 unobservable inputs and the valuation sensitivity is as follows:

<b>Unobservable inputs</b>	<b>2023</b>	<b>2022</b>
Capitalisation Rate	6.625%	-
Terminal Yield	6.875%	-
Discount rate	7.50%	-
Growth Forecast (CPI)	1.95%	-



**PMG Direct Childcare Fund**  
**Notes to the Financial Statements**  
**For the year ended 31 March 2023**

**11. Investment property (continued)**

**n) Valuation Sensitivity**

A sensitivity analysis showing how a change to capitalisation and discount rates affect the value of the Fund's investment properties is provided on the following page. The capitalisation rate relates to the income capitalisation approach and the discount rate relates to the discounted cash flow approach. Generally a change in the capitalisation rate is accompanied by a directionally similar change in the discount rate. The table below assesses each of these inputs in isolation and assumes all other inputs are held constant.

	<b>Adopted Value</b>	<b>Capitalisation Rate -0.25%</b>	<b>Capitalisation Rate 0.25%</b>
<b>145 Hibiscus Coast Highway</b>			
Actual Valuation	4,850,000		
Impact of assumption change (\$)		200,000	(200,000)
Impact of assumption change		4.1%	(4.1%)
<b>26 Dynes Road</b>			
Actual Valuation	5,750,000		
Impact of assumption change (\$)		225,000	(200,000)
Impact of assumption change		3.9%	(3.5%)
<b>173 Bill Richardson Drive</b>			
Actual Valuation	2,850,000		
Impact of assumption change (\$)		125,000	(100,000)
Impact of assumption change		4.4%	(3.5%)
<b>25 Spitfire Drive</b>			
Actual Valuation	3,600,000		
Impact of assumption change (\$)		125,000	(150,000)
Impact of assumption change		3.5%	(4.2%)
<b>58 Ormlston Road</b>			
Actual Valuation	7,225,000		
Impact of assumption change (\$)		325,000	(300,000)
Impact of assumption change		4.5%	(4.2%)
<b>17 Catherine McLean</b>			
Actual Valuation	4,200,000		
Impact of assumption change (\$)		175,000	(175,000)
Impact of assumption change		4.2%	(4.2%)
<b>130 Pinecrest Drive</b>			
Actual Valuation	4,825,000		
Impact of assumption change (\$)		200,000	(175,000)
Impact of assumption change		4.1%	(3.6%)
<b>6-8 Merfield Road</b>			
Actual Valuation	6,175,000		
Impact of assumption change (\$)		250,000	(225,000)
Impact of assumption change		4.0%	(3.6%)
<b>30 Ward Street</b>			
Actual Valuation	5,000,000		
Impact of assumption change (\$)		220,000	(190,000)
Impact of assumption change		4.4%	(3.8%)
<b>30 Tuhikaramea</b>			
Actual Valuation	6,500,000		
Impact of assumption change (\$)		300,000	(200,000)
Impact of assumption change		4.6%	(3.1%)



**PMG Direct Childcare Fund**  
**Notes to the Financial Statements**  
**For the year ended 31 March 2023**

**12. Financial instruments**

The Fund's activities expose it to a variety of financial risks: market risk (including price risk and interest rate risk), credit risk and liquidity risk. The Fund's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Fund. The Fund uses derivative financial instruments such as interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Fund does not apply hedge accounting principles in relation to their Interest Rate swaps.

The Fund uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and other price risks, ageing analysis for credit risk and a combination of occupancy and yield analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by senior executives ('Executives') under policies approved by the Supervisor ('the Board'). These policies include identification and analysis of the risk exposure of the Fund and appropriate procedures, controls and risk limits. Executives identify, evaluate and hedge financial risks within the Fund, and they report to the Board monthly.

*a) Liquidity risk*

Liquidity risk is the risk that there are insufficient cash reserves to meet commitments as they fall due. The Fund evaluates its liquidity requirements on an ongoing basis. In general, the Fund will keep sufficient cash reserves to meet its obligations arising from its financial liabilities and will have the ability to make a call on shareholders to cover potential shortfalls.

The following table details the remaining contractual maturity for the Fund's financial liabilities. The Table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Fund can be required to pay and all interest rate variables being held constant.

Maturity analysis of liabilities:

<b>2023</b>	<b>Total</b>	<b>0-12 months</b>	<b>1-2 Years</b>	<b>2-5 Years</b>	<b>5 Years &amp; over</b>
<b>Financial Liabilities</b>	\$	\$	\$	\$	\$
Secured Bank Loan	11,702,875	763,262	761,558	10,178,055	-
Derivative Financial Instruments	(415,511)	-	(415,511)	-	-
<b>Other Financial liabilities</b>					
Trade and other payables	664,619	664,619	-	-	-
<b>2022</b>	<b>Total</b>	<b>0-12 months</b>	<b>1-2 Years</b>	<b>2-5 Years</b>	<b>5 Years &amp; over</b>
<b>Financial Liabilities</b>	\$	\$	\$	\$	\$
Secured Bank Loan	18,401,997	628,515	6,499,726	11,273,756	-
Derivative Financial Instruments	(463,146)	(88,863)	-	(374,283)	-
Other Financial liabilities					
Trade and other payables	710,625	710,625	-	-	-



**PMG Direct Childcare Fund**  
**Notes to the Financial Statements**  
**For the year ended 31 March 2023**

**12. Financial instruments (continued)**

*b) Credit Risk*

Credit risk is the risk that the counterparty to a transaction with the Fund will fail to discharge its obligations, causing the Fund to incur a financial loss. Financial instruments which potentially subject the Fund to credit risk consist of cash and cash equivalents and trade and other receivables. The Fund's policy to limit credit risk is to assess the creditworthiness of prospective tenants, and rent payments are required in advance. Where tenants do fall into default, this is actively managed to collect arrears. Cash and cash equivalents are held with a registered bank, with Standard & Poor's credit rating of AA-. The Fund manages its exposure to credit risk on an ongoing basis.

Maximum exposures to credit risk at balance date are the carrying amounts of financial assets in the Statement of Financial Position. The Fund has no concentration of credit risk.

*c) Market risk*

Market risk is the risk that changes in market prices such as interest rates will affect the Fund's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return on risk. The Fund's interest rate risk arises from bank borrowings (note 7). Borrowings issued at variable rates expose the Fund to cash flow interest rate risk. Borrowings issued at fixed interest rates expose the Fund to fair value interest rate risk. The Fund manages its cash flow interest rate risk by having a portion of the bank borrowings on fixed interest rates. This has the economic effect of providing certainty around interest payments on the bank borrowings. The floating portion of the borrowings is exposed to market interest rate risk. This risk is managed by the Directors of the Manager regularly evaluating current market interest rates and conditions and the risks associated and responding appropriately, including entering into interest rate swaps.

PMG Direct Childcare Fund has loan facilities with ASB Bank. The Loan facility limits are \$10,530,000 and \$10,057,000 is drawn down at balance date. The loans have floating interest of 7.49% and 7.61% respectively and a maturity date of 28 May 2025.

Trade and other receivables and payables are interest free and have settlement dates within thirty days. All other assets and liabilities are non-interest bearing.

*d) Interest rate risk*

In managing interest rate risks the Fund aims to reduce the impact of short-term fluctuations on the Fund's earnings. Over the longer-term, however, permanent changes to interest rates would have an impact on profit.

	<b>Weighted average Interest Rate</b>	<b>Balance</b>	<b>% of total loans</b>
<b>31 March 2023</b>			
Bank Loans	7.59%	10,057,000	100%
Interest Rate Swaps	0.96%	6,400,000	
<b>Net exposure to cash flow interest rate risk</b>		<b>3,657,000</b>	
	<b>Weighted average Interest Rate</b>	<b>Balance</b>	<b>% of total loans</b>
<b>31 March 2022</b>			
Bank Loans	3.67%	17,214,000	100%
Interest Rate Swaps	0.82%	12,400,000	
<b>Net exposure to cash flow interest rate risk</b>		<b>4,814,000</b>	



**PMG Direct Childcare Fund**  
**Notes to the Financial Statements**  
**For the year ended 31 March 2023**

**12. Financial instruments (continued)**

*Sensitivity*

Sensitivity in changes to interest rates is normally relevant to financial instruments bearing floating interest rates but may be relevant to fixed rate financial instruments that are re-measured at fair value.

The following is a cash flow sensitivity analysis for variable rate borrowings. A change in 100 basis point in interest rates at 31 March 2022 and 31 March 2021 would have increased (decreased) equity or profit and loss by the amounts shown below. This analysis includes the offsetting movement in cash flow from interest rate swaps and assumes that all other variables remain constant.

	<b>Profit or Loss</b>		<b>Equity</b>	
	<b>100bp Increase</b>	<b>100bp decrease</b>	<b>100bp increase</b>	<b>100bp decrease</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>31 March 2023</b>				
Variable rate bank borrowings	(36,570)	36,570	(36,570)	36,570
<b>Cash flow sensitivity (net)</b>	<b>(36,570)</b>	<b>36,570</b>	<b>(36,570)</b>	<b>36,570</b>
<b>31 March 2022</b>				
Variable rate bank borrowings	(48,140)	48,140	(48,140)	48,140
<b>Cash flow sensitivity (net)</b>	<b>(48,140)</b>	<b>48,140</b>	<b>(48,140)</b>	<b>48,140</b>

**e) Derivatives financial instruments**

The Fund enters into interest rate swaps to reduce interest rate risk. These are classified as financial assets or liabilities at fair value through the profit or loss on initial recognition. They are initially recognised at fair value on the date a derivative contract is entered and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value is recorded directly in profit or loss.

At 31 March 2023, interest rate swaps had a notional value of \$6,400,000 (2022: \$12,400,000). Fair value has been determined by ASB Bank Limited.

The Fund entered into the following interest rate swap agreements with the ASB Bank. The Fund is a fixed rate payer under the terms of these agreements. Specific details are as follows:

<b>At 31 March 2023</b>	<b>Maturity date</b>	<b>Notional Value</b>	<b>Fixed Interest rate</b>	<b>Fair Value \$</b>
Interest rate swap 1	18 September 2024	2,400,000	0.26%	171,076
Interest rate swap 2	18 February 2025	2,000,000	0.63%	162,027
Interest rate swap 3	30 November 2024	2,000,000	2.56%	<u>82,408</u>
				415,511

Payments are made monthly in accordance with the terms of the swap agreements. There is no difference between the fair value and the amounts the Fund is contractually required to pay at maturity.



**PMG Direct Childcare Fund**  
**Notes to the Financial Statements**  
**For the year ended 31 March 2023**

**12. Financial instruments (continued)**

**e) Derivatives financial instruments (continued)**

Fair values and fair value hierarchy

The carrying amounts shown in the Statement of Financial Position are a reasonable approximation of the fair value of the financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

f) Classification and fair values	Total Carrying			
	Amount	Level 1	Level 2	Level 3
<b>31 March 2023</b>	\$	\$	\$	\$
Financial Assets Designated at fair value				
Derivative Financial Instruments	415,511	-	415,511	-
<b>Total Financial Assets</b>	<b>415,511</b>	<b>-</b>	<b>415,511</b>	<b>-</b>
	Total Carrying			
	Amount	Level 1	Level 2	Level 3
<b>31 March 2022</b>	\$	\$	\$	\$
Financial Assets Designated at fair value				
Derivative Financial Instruments	463,146	-	463,146	-
<b>Total Financial Assets</b>	<b>463,146</b>	<b>-</b>	<b>463,146</b>	<b>-</b>

**13. Related Parties**

The assets of the Fund are managed under a Management Agreement between the Investors and PMG Property Funds Management Limited. PMG Property Funds Management Limited is a related party under IAS 24 due to their ability to exercise significant influence over the Fund. PMG Property Funds Management Limited monitor the share registry for the Fund.

Management fees are an arm's length transaction. Management fees payable to PMG Property Funds Management Limited have two components:

- A Fund Management Fee of 0.40% of the carrying value of the Investment Properties calculated on a monthly basis
- A Property Management fee of 1.00% of the gross annual rental collected from the properties.

The Manager is also entitled to:

- An annual Performance Fee equivalent to 20% of the excess performance above the Fund's performance benchmark (the Fund benchmark rate is an internal rate of return (income plus revaluation gains) of 10%),
- A \$50,000 acquisition fee for each additional property acquired and a 1% of the sale price fee if a property is disposed of by the Fund,
- A \$50,000 development fee if the fund acquires a property where an ECE centre development is being undertaken,

# PMG Direct Childcare Fund

## Notes to the Financial Statements

### For the year ended 31 March 2023

#### 13. Related Parties (continued)

- A property investigation fee of up to \$20,000 for prospective acquisitions where the acquisition does not proceed,
- A 5% project management fee on any refurbishments undertaken on any properties,

PMG Property Funds Management Limited received management fees of \$232,596 (2022: \$212,947) and are entitled to a performance fee of \$Nil (2022: \$321,607). At balance date there was \$29,242 (2022: \$344,541) owing to PMG Property Funds Management Limited. They also received a \$50,000 transaction fee for disposal of a property and \$146,025 in acquisition fees and \$3,999 in project management fees.

There were related party transactions between PMG Funds Limited and PMG Direct Childcare Fund as PMG Funds Limited was paid expenses of \$97,658 during the year relating to the acquisitions of property (2022: Nil), of which \$8,285 was owing at balance date (2022: Nil).

There were related party transactions between PMG Holdings Limited and PMG Direct Childcare Fund as PMG Holdings Limited held 100,000 units (2022: 100,000 units) in PMG Direct Childcare Fund during the year and received distributions of \$6,000 (2022: \$6,427), of which \$500 (2022: \$500) is owing at balance date.

There were related party transactions between Pacific Property Fund Limited and PMG Direct Childcare Fund as Pacific Property Fund Limited held 3,240,000 units (2022: Nil units) in PMG Direct Childcare Fund during the year and received distributions of \$64,800 (2022: \$Nil), of which \$16,200 (2022: \$Nil) is owing at balance date.

There were related party transactions between PMG Capital Fund Limited and PMG Direct Childcare Fund as PMG Capital Fund Limited held 920,000 units (2022: Nil units) in PMG Direct Childcare Fund during the year and received distributions of \$25,300 (2022: \$Nil), of which \$4,600 (2022: \$Nil) is owing at balance date.

There were related party transactions between PMG Generation Fund and PMG Direct Childcare Fund as PMG Generation Fund held 20,000 units (2022: Nil units) in PMG Direct Childcare Fund during the year and received distributions of \$900 (2022: \$Nil), of which \$100 (2022: \$Nil) is owing at balance date.

There were related party transactions between Nigel Lowe's Family Trust (Nigel is Director of the Manager) and PMG Direct Childcare Fund as NS & MK Lowe Family Trust Fund held 60,000 units (2022: 60,000 units) in PMG Direct Childcare Fund during the year and received distributions of \$3,600 (2022: \$3,856), of which \$300 (2022: \$300) is owing at balance date.

#### 14. Comparison to Prospective Financial Statements

A comparison to the prospective financial statements, as issued in the Product Disclosure Statement dated 26 October 2022 has been provided in the financial statements on Pages 3-6. The key differences in the Statement of Comprehensive Income are that the rental income is less than forecast due to vacancy from Rainbow Corner Childcare going into receivership. The decrease in fair value of investment property was more than allowed for in the forecast, due to lower valuations due to vacancy and the market. The key differences in the Statement of Financial Position are the Investment Property is lower than projected due to lower valuations than forecast and the borrowings are more than projected due to less units being issued than projected.

**PMG Direct Childcare Fund**  
Notes to the Financial Statements  
For the year ended 31 March 2023

**15. Reconciliation of operating results and operating cashflows**

	2023 \$	2022 \$
<b>Total net profit/ (loss)</b>	<b>(3,228,043)</b>	<b>3,920,161</b>
<i>Adjustments for:</i>		
Changes in fair value of investment property	(4,999,176)	1,881,780
Loss on disposal of investment property	(170,306)	0
Changes in fair value of derivative financial instruments	(47,635)	381,703
	<b>1,989,074</b>	<b>1,656,678</b>
<i>Changes due to assets and liabilities used in operating activities</i>		
Trade Payables/Accruals	(53,883)	6,398
Prepayments	(24,119)	5,295
Accounts Receivable	70,090	(102,026)
Lease Inducements	68,230	(208,232)
Income in Advance	(54,093)	24,107
<b>Net cash from/ (used in) operating activities</b>	<b>1,995,299</b>	<b>1,382,220</b>

**16. Capital Commitments**

The Fund has no capital commitments at balance date.

**17. Contingent Liabilities**

The Fund has no material contingent liabilities at balance date.

**18. Subsequent Events**

Subsequent to Balance Date two leases have ended with Rainbow Corner Early Learning Centres, due to them going into Receivership in March 2023. A new fifteen year lease has been entered into for 130 Pinecrest Drive, Gulf Harbour. The Lease will commence once the Ministry of Education has issued the Licence.





# Independent Auditor's Report

To the Investors of PMG Direct Childcare Fund

Report on the audit of the financial statements

## Opinion

In our opinion, the financial statements of PMG Direct Childcare Fund (the 'Fund') on pages 3 to 24 present fairly, in all material respects:

- i. the Fund's financial position as at 31 March 2023 and its financial performance and cash flows for the year ended on that date;

in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards issued by the New Zealand Accounting Standards Board.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 March 2023;
- the statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Fund in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

Our firm has also provided other services to the Fund in relation to performing a limited assurance engagement for prospective financial information and tax consulting. Subject to certain restrictions, partners and employees of our firm may also deal with the Fund on normal terms within the ordinary course of trading activities of the business of the Fund. These matters have not impaired our independence as auditor of the Fund.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the Investors as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our



statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

### The key audit matter

### How the matter was addressed in our audit

#### Valuation of Investment Property

As disclosed in note 11 of the financial statements, the Fund's Investment Property valued at \$50.4m represents the majority of the assets held by the Fund as at 31 March 2023.

The valuation of Investment Property is considered a key audit matter due to the judgement involved in the assessment of the fair value of this asset category by the Manager of the Fund. The judgement relates to the various valuation methodologies used and the assumptions found within each of those methodologies.

The assumptions that have the largest impact on the valuations are:

- Terminal yield;
- Capitalisation rate; and
- Discount rate.

Our audit procedures included:

- Assessing the competence, objectivity, and independence of the external experts used by the Manager, including the assessment of their professional qualifications and experience;
- Assessing whether the valuation methodologies used to fair value the Investment Property were appropriate;
- Agreeing observable inputs used in the Investment Property valuations to supporting documentation;
- Assessing whether the key assumptions and inputs used in the valuation models were reasonable. This included the comparison of terminal yields, capitalisation rates, and discount rates to market benchmarks;
- Assessing whether changes in assumptions (where applicable) were in line with expectation; and
- Considering whether the cash flows had been adjusted for anticipated rental abatements and reduced rental growth where applicable.

We had no matters to report as a result of our procedures.

## Other information

The Manager, on behalf of the Fund, are responsible for the other information included in the entity's financial statements. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Use of this independent auditor's report

This independent auditor's report is made solely to the Investors as a body. Our audit work has been undertaken so that we might state to the Investors those matters we are required to state to them in the independent



auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Investors as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

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## Responsibilities of the Manager for the financial statements

The Manager, on behalf of the Fund, is responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards issued by the New Zealand Accounting Standards Board;
- implementing necessary internal control to enable the preparation of a set of financial statements that is free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations or have no realistic alternative but to do so.

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## Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

KPMG  
Tauranga

31 May 2023